

Message Text

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ACTION ARA-10

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E.O. 11652: N/A

TAGS: ECOON, UY

SUBJ: VEGH'S SPEECH ON THE ECONOMY

REF: MVD 570

1. SUMMARY: AS ANTICIPATED REFTEL, MINECON AND FINANCE VEGH VILLEGAS SPOKE ON RADIO AND TV TOTHE NATION FEB 21 ON THE STATE OF THEECONOMY. HE HIGHLIGHTED ECONOMIC PERFORMANCE DURING 1974, EXPLAINED THE MEASURES ENACTED ON FEB 7 (SEE REFTEL) AND OUTLINED OBJECTIVES TO BE ACHIEVED IN 1975. HE PREDICTED THAT 1975 WOULD BE A MORE DIFFICULT YEAR THAN 1974, BUT THAT A NEW PERIOD OF PROSPERITY SHOULD BEING IN 1976. END SMMARY.

2. VEGH CITED THE QUADRUPLING OF PETROLEUMPRICES AS THE PRIMARY CAUSE FOR THE ECONOMIC AND FINANCIAL DIFFICULTIES THE COUNTRY SUFFERED IN 1974. DESPITE THE ADVERSE INTERNATIONAL CLIMATE, HE ESTIMATED URUGUAY HAD A 1.4 PERCENT GROWTH IN GROSS DOMESTIC PRODUCT LAST YEAR (COMPOSED OF A 4 PERCENT INCREASE IN THE AGRICULTURAL SECTOR, 3 PERCENT IN MUNUFACTURING, 1 PERCENT IN LIMITED OFFICIAL USE

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SERVICES AND

LIVESTOCK PRODUCTION, AND A DECLINE OF 2 PERCENT IN CONSTRUCTION).

HE CITED THE INCREASE IN THE EXPORTS OF MANUFACTURED GOODS, AND AN INCREASING CURRENT OF CAPITAL GOODS INVESTMENT AS FAVORABLE FACTORS IN 1974 PERFORMANCE. UNFAVORABLE FACTORS WERE THE INCREASING GOU BUDGET DEFICIT (FROM 10 PERCENT IN THE FIRST HALF OF 1974 TO 25 PERCENT IN THE SECOND HALF) AND THE "ALARMING" RATE OF INFLATION; HOWEVER, VEGH ATTRIBUTED 30 POINTS OF LAST YEAR'S 107 PERCENT INFLATION RATE TO CAUSES WHICH WOULD NOT RECUR IN 1975.

3. VEGH SAID THAT THE MEASURES ADOPTED FEB 7 WERE DESIGNED TO CORRECT SOME OF THESE ECONOMIC DISTORTIONS. THE PRICE INCREASES FOR MEAT AND WHEAT PRODUCTS PLUS THE LOWERING OF CATTLE PRICES TO PRODUCERS WOULD REDUCE THE GOVERNMENT SECTOR'S OVERALL DEFICIT, WHILE THE INCREASE IN TAXES ON PETROLEUM PRODUCTS WOULD PROVIDE ADDITIONAL FUNDS TO THE TREASURY. IN A BARELY VEILED REFERENCE TO THE BANK OF THE REPUBLIC'S CREDIT POLICIES, HE SAID ONE COULD COUNT ON A CONTINUATION IN 1975 OF MONETARY DISCIPLINE AS A BRAKE ON INFLATION.

4. VEGH LISTED PRIORITY OBJECTIVES FOR 1975 AS REDUCING THE RATE OF INFLATION, THE FISCAL DEFICIT, AND THE BALANCE OF PAYMENTS DEFICIT. HE MAINTAINED THAT THE FEB 7 MEASURES WOULD HELP REDUCE INFLATION AND IMPLIED THE MEASURES WERE ADEQUATE FOR THIS PURPOSE. ON THE FISCAL AND BOP DEFICITS, HE PROPOSED RAISING TAX COLLECTIONS AND EXPANDING EXPORTS, BUT SUGGESTED NO NEW SPECIFICS ON HOW THIS MIGHT BE DONE.

5. VEGH'S SPEECH HAS PROVOKED NO EDITORIAL COMMENT AS YET; HOWEVER LA MANANA EXPRESSED ITS DISAPPOINTMENT AT THE LACK OF SUBSTANCE IN THE FEB 7 MEASURES IN AN EDITORIAL PUBLISHED BEFORE VEGH'S SPEECH. AFTER COMMENTING THAT VEGH HAD INITIALLY RAISED HOPES THAT BASIC CHANGES WOULD BE UNDERTAKEN TO TURN THE COUNTRY FROM ITS CONTROLLED, STATIST ORIENTATION TOWARD A MORE OPEN ECONOMY, THE EDITORIAL SAID "WE HAD UNDERSTOOD, THEREFORE, THAT THE SO-CALLED 'PACKAGE' OF ECONOMIC MEASURES TO BE ADOPTED AT THE BEGINNING OF 1975, WOULD CONTAIN SUBSTANTIAL MEASURES, CAPABLE OF CLEARLY MARKING A PATH TOWARD A SOLUTION TO BASIC PROBLEMS....BUT TO OUR SURPRISE WE ONLY FIND (PATHETICALLY) A LIST OF PRICE AND WAGE INCREASES, OR LIMITED OFFICIAL USE

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IN OTHER WORDS,
THE MOST ROUTINE RECOURSE OF THE MOST ROUTINE
MINISTERS..."

6. COMMENT: VEGH'S SPEECH OUTLINES URUGUAY'S PRESENT ECONOMIC PROBLEMS CLEARLY BUT PROPOSES NO REMEDIES BEYOND THE LIMITED STEPS RECENTLY TAKEN. IF THERE ARE FURTHER ECONOMIC MEASURES TO BE ANNOUNCED, HE DID NOT ALLUDE TO THEM; NOR DID HE

PREPARE THE PUBLIC FOR NEW AUSTERITY MEASURES. GIVEN THE CONTINUING LACK OF FULL AGREEMENT WITHIN THE GOVERNMENT ON VEGH'S THOROUGH-GOING REFORM PLANS, AND PARTICULARLY STABILIZATION POLICY HIS RETICENCE IS PERHAPS UNDERSTANDABLE.

7. COPY OF SPANISH TEXT OF SPEECH FOLLOWS BY AIRGRAM.

8. GDS.
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